

Message Text

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21

ACTION TRSE-00

INFO OCT-01 EA-06 NEA-06 ISO-00 IO-10 H-01 L-02 PRS-01

PA-01 USIA-06 SP-02 AID-05 EB-04 NSC-05 RSC-01

CIEP-01 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-01 SIL-01

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8243

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 3/31/75

TAGS: EAID, EFIN, CE

SUBJECT: PROPOSED ADB SUPPLEMENTARY LOAN FOR COMMUNICATIONS
SATELLITE EARTH STATION PROJECT (SRI LANKA)

REF: STATE 151746 DTD AUG 18, 1971

SUMMARY: ADB MANAGEMENT PROPOSES \$1.5 MILLION
EQUIVALENT SUPPLEMENTARY LOAN FROM SPECIAL FUNDS
RESOURCES TO GOVT OF SRI LANKA TO FINANCE FOREX COST
OVERRUN AND ADDITIONAL COST TO COMPLETE COMMUNICATIONS
SATELLITE EARTH STATION PROJECT. INCREASE DUE TO
COST ESCALATIONS AND NEED FOR LIMITED AMOUNT OF
ADDITIONAL EQUIPMENT RESULTING FROM HIGHER TRAFFIC
FORECASTS SINCE ORIGINAL APPRIASAL. USADB REQUESTS
NAC GUIDANCE IN VIEW U.S. ABSTENTION ON ORIGINAL LOAN.
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1. ADB DOC R104-74 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN POUCHED ADDRESSEES NOV 4 BOARD CONSIDERATION SCHEDULED NOV 21.

2. ADB MANAGEMENT PROPOSING \$1.5 MILLION SUPPLEMENTARY LOAN FROM SPECIAL FUNDS RESOURCES TO GOVT OF SRI LANKA. PROCEEDS WILL FINANCE FOREX COST OVERRUN AND ADDITIONAL FOREX COSTS OF CONSTRUCTION OF SATELLITE EARTH STATION; CONSULTING SERVICES; AND ASSISTANCE IN OPERATIONS OF PROJECT FACILITIES DURING FIRST YEAR. PROPOSED TERMS ARE 40 YEAR AMORTIZATION INCLUDING TEN YEAR GRACE PERIOD, 1 PERCENT SERVICE CHARGE. GOVT OF SRI LANKA TO BE BORROWER AND OVERSEAS TELECOMMUNICATION SERVICE UNDER MINISTRY OF POSTS AND TELECOMMUNICATIONS THE EXECUTING AGENCY.

3. ON AUG 19, 1971 BANK APPROVED \$3.6 MILLION SPECIAL FUNDS LOAN TO FINANCE FOREX COSTS FOR INSTALLATION OF COMMUNICATIONS SATELLITE EARTH STATION IN SRI LANKA TO ENABLE COUNTRY TO PARTICIPATE IN INTELSAT GLOBAL COMMUNICATIONS SYSTEM. FACILITIES FORMING PROJECT INCLUDE SATELLITE EARTH STATION, INTERNATIONAL TELEPHONE SWITCHING CENTER AT COLOMBO, AND MICROWAVE SYSTEM TO LINK SATELLITE EARTH STATION TO INTERNATIONAL TELEPHONE, TELEX AND TELEGRAPH SWITCHING CENTERS IN COLOMBO. TOTAL ESTIMATED PROJECT COST WAS \$4.1 MILLION, AND PLANNED COMMISSIONING DATE FOR OVERALL PROJECT WAS MAY 1974.

4. CONSIDERABLE DELAY WAS EXPERIENCED IN APPOINTING PROJECT CONSULTANTS. SEVERAL OF FIRST RANKED FIRM'S CONDITIONS PROVED UNACCEPTABLE TO BOTH GOVT AND BANK. NEGOTIATIONS WITH SECOND RANKED FIRM WERE NOT CONCLUDED UNTIL APRIL 1973. CONTRACT WAS SIGNED IN JUNE 1973.

5. FOLLOWING PREQUALIFICATION OF FIVE FIRMS, TENDERS FOR SUPPLY OF EQUIPMENT ON TURNKEY BASIS WERE INVITED IN DEC 1973, BUT ONLY ONE FIRM (NEC LTD. OF JAPAN) SUBMITTED BID. CONTRACT FOR SUPPLY AND INSTALLATION OF LIMITED OFFICIAL USE

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SATELLITE EARTH STATION AND MICROWAVE LINK WAS CONCLUDED. PRICE QUOTED FOR INTERNATIONAL SWITCHING EQUIPMENT CONSIDERED TOO COSTLY AND CONTAINED SOME FEATURES NOT COVERED IN SPECIFICATIONS. NEW TENDERS ARE TO BE CALLED FOR THIS EQUIPMENT. (FYI: MANY FIRMS, INCLUDING SOME U.S., NOW ELIGIBLE TO PARTICIPATE IN BIDDING, WERE NOT ELIGIBLE TO BID ON SPECIAL FUNDS PROJECTS AT TIME OF INITIAL TENDERS. END FHI) EARTH STATION IS EXPECTED

TO BECOME OPERATIONAL IN NOV 1975. SINCE EXISTING MANUALLY OPERATED INTERNATIONAL SWITCHBOARD CAN PROVIDE SERVICE ON LIMITED SCALE UNTIL AUTOMATIC SYSTEM IS INSTALLED, THERE IS NO PROBLEM IN DEALING WITH THIS SECTION OF PROJECT SEPARATELY, EVEN THOUGH SWITCHING EXCHANGE IS LIKELY TO BE COMMISSIONED ABOUT FIVE MONTHS LATER THAN SATELLITE EARTH STATION.

6. TOTAL CAPITAL COST OF PROJECT IS NOW \$5.8 MILLION, INCLUDING FOREX COMPONENT OF \$5.1 MILLION, OR \$1.7 MILLION ABOVE TOTAL PROVIDED FOR IN ORIGINAL LOAN. ADDITIONAL FOREX COMPONENT IS \$1.5 MILLION, OF WHICH \$1.0 MILLION IS ATTRIBUTED TO COST ESCALATION SINCE ORIGINAL ESTIMATES WERE PREPARED IN 1971. ADDITIONAL CHANNELING EQUIPMENT NEEDED AS RESULT OF HIGHER TRAFFIC FORECASTS SINCE ORIGINAL DESIGN DATA WAS PREPARED (210,000), ADDITIONAL CONSULTANT SERVICES (\$50,000), AND CONTINGENCY FACTOR (\$240,000) ACCOUNT FOR \$0.5 MILLION BALANCE REQUIRED. GOVT WILL PROVIDE \$200,000 ADDITIONAL LOCAL CURRENCY EQUIVALENT NEEDED AND HAS AGREED TO BEAR ANY COST INCREASE BEYOND \$1.7 MILLION NOW ESTIMATED.

7. ESTIMATED INCREASE IN PROJECT COST IS MORE THAN OFFSET BY ANTICIPATED REVENUE INCREASE. BANK MISSION'S ESTIMATES FOR BOTH ECONOMIC AND FINANCIAL RATES OF RETURN ARE NOW 26.6 PERCENT COMPARED WITH 1971 ESTIMATES OF 21.7 PERCENT FOR ECONOMIC AND 17.8 PERCENT FOR FINANCIAL RATES OF RETURN. MISSION FOUND THAT BORROWER HAS COMPLIED WITH ALL MAJOR REQUIREMENTS OF COVENANTS IN ORIGINAL LOAN DOCUMENTS APPLICABLE AT THIS STAGE OF PROJECT IMPLEMENTATION.

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8. SCOPE AND ECONOMIC JUSTIFICATION OF PROJECT HAVE NOT CHANGED, AND EARLY COMPLETION IS CONSIDERED QUITE IMPORTANT. SRI LANKA CONTINUES TO FACE SERIOUS BALANCE OF PAYMENTS PROBLEM. CONSIDERING LIMITED AVAILABILITY OF INTERNATIONAL AID AND HIGH COST OF SUPPLIERS' CREDIT, GOVT HAS REQUESTED THAT BANK FINANCE THIS COST OVERRUN ON SOFTEST POSSIBLE TERMS. (TERMS OF EXISTING LOAN WERE 20 YEARS INCLUDING 4 YEARS GRACE AT 3-1/2 PERCENT INTEREST, WHILE BANK RECOMMENDS NEW STANDARD 40 YEAR TERM INCLUDING 10 YEARS GRACE WITH 1 PERCENT SERVICE CHARGE FOR PROPOSED SPECIAL FUNDS SUPPLEMENTARY LOAN.) IN VIEW U.S. ABSTENTION ON ORIGINAL LOAN BECAUSE OF USE OF SPECIAL FUNDS TO FINANCE EARTH STATION (PER REFTEL) AND SINCE PROPOSED TERMS ARE EVEN MORE CONCESSIONAL,

REQUEST NAC GUIDANCE.

9. REQUEST COLOMBO'S COMMENTS FOR NAC
AGENCIES, INFO USADB MANILA, PURSUANT TO STATE
119795 DTD 3 JULY 1972.
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Message Attributes

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